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TO RUEHC/SECSTATE WASHDC IMMEDIATE 2876  
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 4696  
RUEHLM/AMEMBASSY COLOMBO PRIORITY 4933  
RUEHKA/AMEMBASSY DHAKA PRIORITY 0057  
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2924  
RUEHLO/AMEMBASSY LONDON PRIORITY 4331  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0134  
RUEHRO/AMEMBASSY ROME PRIORITY 0136  
RUEHKO/AMEMBASSY TOKYO PRIORITY 0979  
RHMFISS/13AF ANDERSEN AFB GU PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY  
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C O N F I D E N T I A L KATHMANDU 002286

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TAGS: [ENRG](#) [EAGR](#) [EAID](#) [PGOV](#) [PREL](#) [ECON](#) [MARR](#) [NP](#)  
SUBJECT: NEPAL'S PETROLEUM CRISIS NOT YET SOLVED

REF: KATHMANDU 2268

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

Summary  
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¶1. (C) Nepali Finance Minister Mahat told the Ambassador August 21 the Government of Nepal (GON) had mishandled its attempt to abolish most of the subsidies on petroleum products. He expressed regret that it had not been possible to retain at least some portion of the price increase. Mahat said he expected a GON expert commission to recommend a phased increase approach beginning perhaps after the major Nepali holidays in October. Mahat bemoaned Maoist depredations against the country's economy. He also took the opportunity to request additional U.S. food aid to assist drought-afflicted residents of Western Nepal. End Summary.

Finance Minister Admit Effort Mishandled  
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¶2. (C) The Ambassador met August 21 with Nepali Finance Minister Ram Saran Mahat (Nepali Congress) to get his views on the short-lived attempt by the Government of Nepal (GON) to raise petroleum product prices (reftel). Finance Minister Mahat conceded that the GON had not handled the matter properly. He also noted that the issue was not going away. India, as the country's sole supplier of petroleum products, could not ignore Nepal's growing debt forever. The GON had no choice but to address the subsidies. Mahat put some of the blame on the Government's excessive preoccupation with political matters at the expense of economics. Another problem was that Prime Minister Koirala's own party (and Mahat's), had not supported the PM. The Finance Minister voiced regret that it had been impossible to retain at least some part of the price hike.

Next Steps  
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¶3. (C) Mahat told the Ambassador that he had vetted all the

candidates for the expert committee which the Government had established to look at ways to solve Nepal's petroleum crisis. He described the committee members, including the respected former Finance Secretary, as likely to produce a reasonable proposal. His best guess was that they would recommend a phased approach to raising petroleum product prices, perhaps after the major Nepali holidays in October. In response to a question from the Ambassador, the Finance Minister admitted that there could be a role for private companies in importing petroleum, but it would require considerable investment and any overall solution would have to take into account the need to ensure the poor had access to the fuel they needed. He noted that profits from the sale of gasoline currently cross-subsidized the price of kerosene. The difficulty with a direct subsidy to poor Nepalis, in his view, was that it would invite corruption.

#### Poor State of Nepal's Economy Bemoaned

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¶4. (C) The Finance Minister shared the Ambassador's grave concerns about the deleterious effect that continued Maoist intimidation and extortion were having on the Nepali economy. The tea industry and the hotel industry were but two of the many that were suffering. When asked why the police were not taking a firm stand against the Maoists, Mahat confided that Home Minister Sitaula had been telling his cabinet colleagues to be patient. Once the Maoist combatants were in their cantonments with their weapons, Sitaula reportedly claimed, he would have the ability to crack down. Mahat regretted as well the poor state of the Nepali budget. He mentioned in particular that he was compelled by the contract terms to go ahead with two expensive purchase agreements with the Chinese government -- one for helicopters and another for an airplane.

#### Request for Additional Food Aid

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¶5. (C) Mahat took the opportunity to request additional U.S. Government food aid. He appreciated the \$250,000 in U.S. food aid previously provided to assist drought-afflicted residents of Western Nepal, but he stressed that much more was required. The Ambassador indicated that he would do what he could, including contacting the relevant offices in Washington, but that he could make no promises. The Ambassador told Mahat that he planned to travel to the West in the near future and would see the situation for himself. In addition, the Ambassador noted he had recently discussed the food shortage with the Japanese Ambassador to Nepal. Japan might, he said, be favorably inclined to help, if the GON made a further approach here in Kathmandu, in Tokyo and in Rome.

#### Comment

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¶6. (C) Mahat's position as Finance Minister is not an enviable one. As the holder of the purse strings, he is more often than not looked to by his fellow ministers as the source of funds to, in effect, buy off disgruntled societal groups. His budget in turn is deeply dependent on assistance from foreign donors who, in many cases, are hesitating to provide funds until they know how the peace process will proceed. Mahat, at least, has no delusions on that score. He told the Ambassador that "difficult days lie ahead." Like us, he is greatly worried about the internal cohesion and effectiveness of the Nepali Government in the face of a determined Maoist organization which has yet to renounce violence.

MORIARTY